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SUBJECT: FRENCH AUTHORITIES BOLSTER THE EURO, ENCOURAGE  
INVESTMENT IN FRENCH ASSETS

Refs: A. Paris 5667

[1](#)B. Paris 5441

[1](#)C. Paris 6311

[1](#)1. SUMMARY. Key EU and French authorities are talking up the euro and the attractiveness of French financial markets in an effort to increase the attractiveness of France to foreigners. At a recent event targeting Japanese investors, officials underlined progress already made by France, while calling for structural reforms to improve competitiveness. Despite worries about resurgent French protectionism, officials know foreign direct investment in France remains crucial to combat sluggish economic growth and high unemployment. END SUMMARY

ECB Governor: Euro Has the Potential to Develop

[1](#)2. Four months after the "Non" vote in the referendum on the European Constitution, which raised questions over the future of the euro, the Paris Chamber of Commerce and Industry organized a forum with the French-Japanese Chamber of Commerce about "the Future of the Euro and the European Market" to convince potential Japanese investors. In this forum, European Central Bank Governor (ECB) Jean-Claude Trichet stressed the euro was a new currency, not just an average of currencies. He emphasized that the ECB is an independent institution that manages the euro. It implements transparent policies, "which is not the case for all central banks." Transparency and credibility, he explained, were key factors that "anchor inflation anticipations to favor a financial environment of low interest rates."

[1](#)3. Trichet stressed that seven currencies (the Danish Krone and six currencies of the ten new EU members) currently revolve around the euro, a clear example of the euro's potential. Twenty-seven countries including two observers, Bulgaria and Romania, are already participating to the ECB General Council to prepare the future of the euro. He also reiterated the necessity for strict respect of the EU stability and growth pact by EU members. In final comments, Trichet remarked that although more needs to be done in terms of the euro currency, great progress has already been achieved.

Treasury: Euro Has Improved the Management of Public Debt

[1](#)4. In the same forum, Bertrand de Mazieres, the Head of France's Treasury Agency ("Agence France Tresor") also extolled the benefits of the euro on the French economy. The introduction of the euro has given the French Treasury access to large, financial markets, which has caused interest rates to drop, allowing the cost of public debt to decrease as well. De Mazieres dismissed doubts about the usefulness and future of the euro and said comments questioning the viability of the currency should not be taken seriously.

Euronext: Euro Has Helped the Development of Cross-border European Transactions

[1](#)5. Head of Euronext Jean-Francois Theodore emphasized the benefits of the euro and the subsequent abolition of exchange rate risks. Euronext, "the first cross-border European exchange", resulted from the merger of the Paris, Amsterdam and Brussels stock exchanges, and has provided improved access to European funding. Companies can issue financial assets at lower costs, making using Euronext a good alternative to banking credit. Euronext has also offered international investors a large range of financial instruments products with harmonized regulations and unified information systems.

[1](#)6. Theodore cited examples of Euronext's successes: the addition of the Lisbon stock exchange to Euronext in 2001,

the agreement over becoming sharefolders by 460 Euronext members, and the acquisition of the LIFFE, the London-based derivatives market, in 2002. He also mentioned the merger of Euronext's subsidiary Clearnet with the London Clearing House in 2003, which has improved efficiency throughout the European financial community. Theodore indicated that Euronext had further development plans, but did not provide any details.

Reforms are Necessary to Develop Potential Growth . . .

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17. In a special message to international investors, notably the large group of Japanese attending the meeting, Trichet acknowledged that good monetary policy was a necessary condition for economic growth and employment, but "of course, it's not sufficient." Trichet asserted that structural reforms were necessary to jump-start growth in the Euro zone. He highlighted the need for labor market reform and cited the lower rates of productivity in Europe compared with the United States.

. . . but, France Claims It Has Already Started

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18. De Mazieres warned that, despite negative comments about the lack of reforms in France, "a lot has been done." To support this assertion, he cited the pension reform in OECD countries, the forthcoming implementation of health insurance reform, and the increase in entrepreneurship.

19. Similarly, Clara Gaymard, the Chairman of the Invest in France Agency (Agence Francaise pour les Investissements Internationaux - AFII) remarked that comments about the lack of reforms in France continued despite real progress the Government has already made. She listed corporate tax cuts, more flexible labor regulations to facilitate lay-offs, and new hiring contracts which limit minimum lay-off procedures for companies of less than 20 employees as key reform measures that had already been undertaken. Gaymard also called attention to the steps taken to enhance innovation and competitiveness, including the creation of 67 industrial poles of competitiveness. She also suggested new measures to encourage foreign study in France.

110. Gaymard disagreed with "generally accepted" criticisms of France, such as a shortage of engineers, low productivity, high cost of labor, high cost of living, and protectionism. To respond to critics, she stressed the presence of a qualified labor force, higher productivity in France than in the U.S in 2004, and relatively low labor costs. She praised the safety of foreign investment in France, which is protected by effective patents and regulations. She noted that many companies had made significant investments in France during 2004, notably: Astrazeneca, Atmel, General Motors, Kinnevic, LG Electronics inc, Philips Semiconductors and Siemens. She dismissed notions of protectionist tendencies by stating that France is the second country after China to attract foreign direct investment.

Comment

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11. In this forum, French authorities sought to bolster confidence in the euro and its potential, in order to promote foreign investment in French financial assets. The officials seem not to have noticed the contradictions in their pronouncements as the government seeks to both protect (ref B) strategic sectors and pretend it has a completely open investment regime. Despite the inconsistency, all officials recognize that foreign investment in France remains absolutely necessary if France is to increase growth, combat unemployment(ref C), and reduce public debt.

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